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PFIAB TASK FORCE ON ECONOMICS

10 February 1982, 3:00

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9 February 1982

MEMORANDUM FOR: Director of Central Intelligence  
FROM : SA/IA  
SUBJECT : Materials for Meeting with PFIAB Task Force on Economics

1. You are scheduled to meet with the PFIAB Task Force on Economics tomorrow at 3:00.

2. Per our discussion the other day, I asked for the following materials:

a. a history of our estimates of Soviet defense spending, including a description of when and why we revised upward our estimates, and

b. a review of the accuracy of our estimates of the Soviet economy.

3.  people have provided what I believe to be good and short summary answers to your questions. They have provided also some backup material, which I believe you will find informative. I say this knowing that, at least in the case of Soviet defense spending analysis, you were briefed in detail on the methodology. Allowing for weaknesses in that methodology, the bottom line judgment still seems to give us a fairly good handle on the trend in Soviet defense spending.

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4. The summary of CIA's economic estimates includes useful tables showing the comparison of the estimated and actual rates of growth of Soviet GNP, industrial and agricultural production, and oil production.

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cc: Executive Director



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9 February 1982

SummaryChanges in CIA Estimates of Soviet Defense Spending Since 1976

In May of 1976 the Agency published ruble estimates of Soviet defense spending for 1970-75 that were essentially double those published earlier. This large change was principally due to weaknesses in our understanding of Soviet prices, part of which was undoubtedly associated with the reform in Soviet ruble pricing of military equipment that occurred around 1970. The doubling of our estimates mainly involved changes in ruble prices of equipment, not our estimates of the levels of Soviet forces or the estimated dollar costs of Soviet equipment. Consequently, our dollar estimates of Soviet defense activities and our estimates of the physical size of Soviet forces did not change. The increase did, however, substantially raise our estimate of the burden of defense on the Soviet economy.

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Subsequent to this major revision in our ruble estimate, we have, at least annually, reviewed our ruble and dollar estimates to account for changes in our estimates of Soviet force levels. In each of these reviews we have examined and changed, as appropriate, our current estimates of Soviet order-of-battle, weapons production, and military manpower over approximately a 30 year period. These reviews are based on all-source intelligence and draw directly or indirectly upon all of the Intelligence Community's assets.

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In addition to these quantity-related changes in our defense spending estimates, we have continuously reviewed and revised the cost components of both

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our dollar and ruble estimates. Changes typically made in our cost updates include use of newly collected ruble prices for military goods and services, new dollar costs of Soviet weapons based on US manufacturer's direct costing, and adjustments in methodologies to better reflect Soviet production practices or designs. [REDACTED]

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As a result of this process, our defense estimates have undergone numerous changes in detail since 1976 to reflect what we believe are real changes in the trends and levels of Soviet forces. However, there have been no adjustments in our estimates as great as those in 1976. Trends in the aggregate level of Soviet defense activities, as measured by ruble or dollar costs, continue to indicate a steady growth of 3-5 percent annually. In addition, we believe that the burden of defense on the Soviet economy has continued at the high level indicated by our revision of 1976. [REDACTED]

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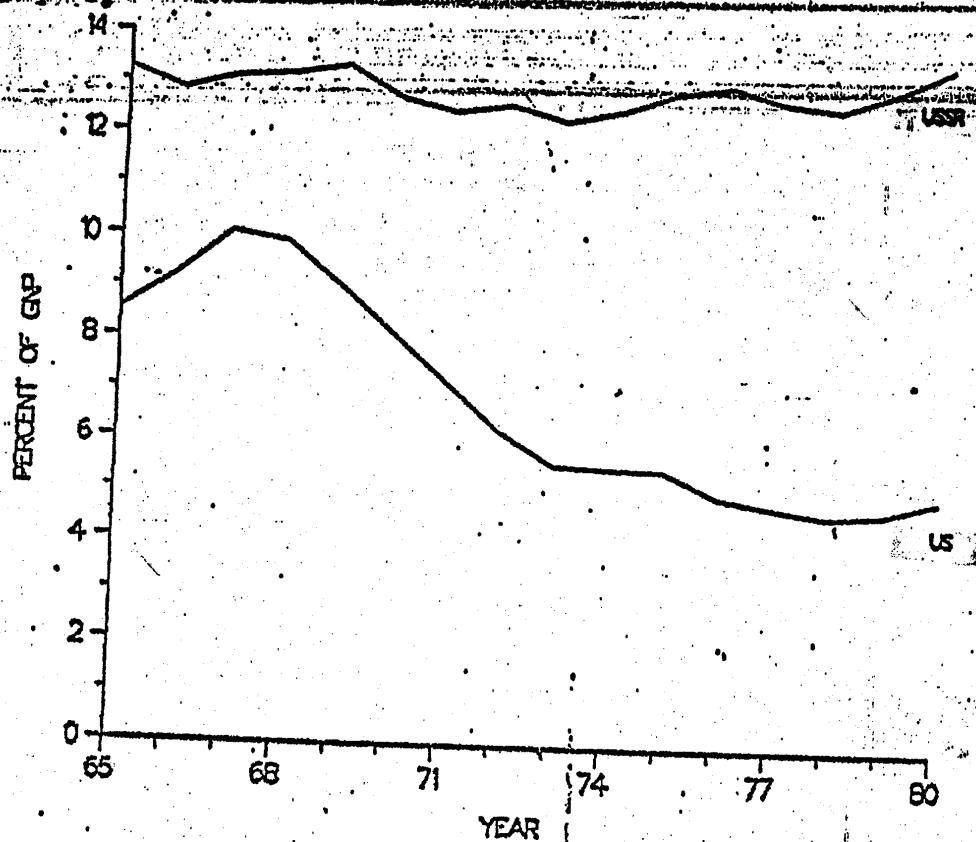
At Tab A we present the last pre-revision (1975) estimate of Soviet defense spending and the first revised estimate (1976). At Tab B we present the key findings of our post-revision estimates (1977, 1978, 1979, and 1981). Finally at Tab C we present a brief statement on CIA's methodology for estimating Soviet defense spending. [REDACTED]

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US AND SOVIET DEFENSE EXPENDITURES AS A PERCENTAGE OF GNP, 1965-1980 3 FEB 1982



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